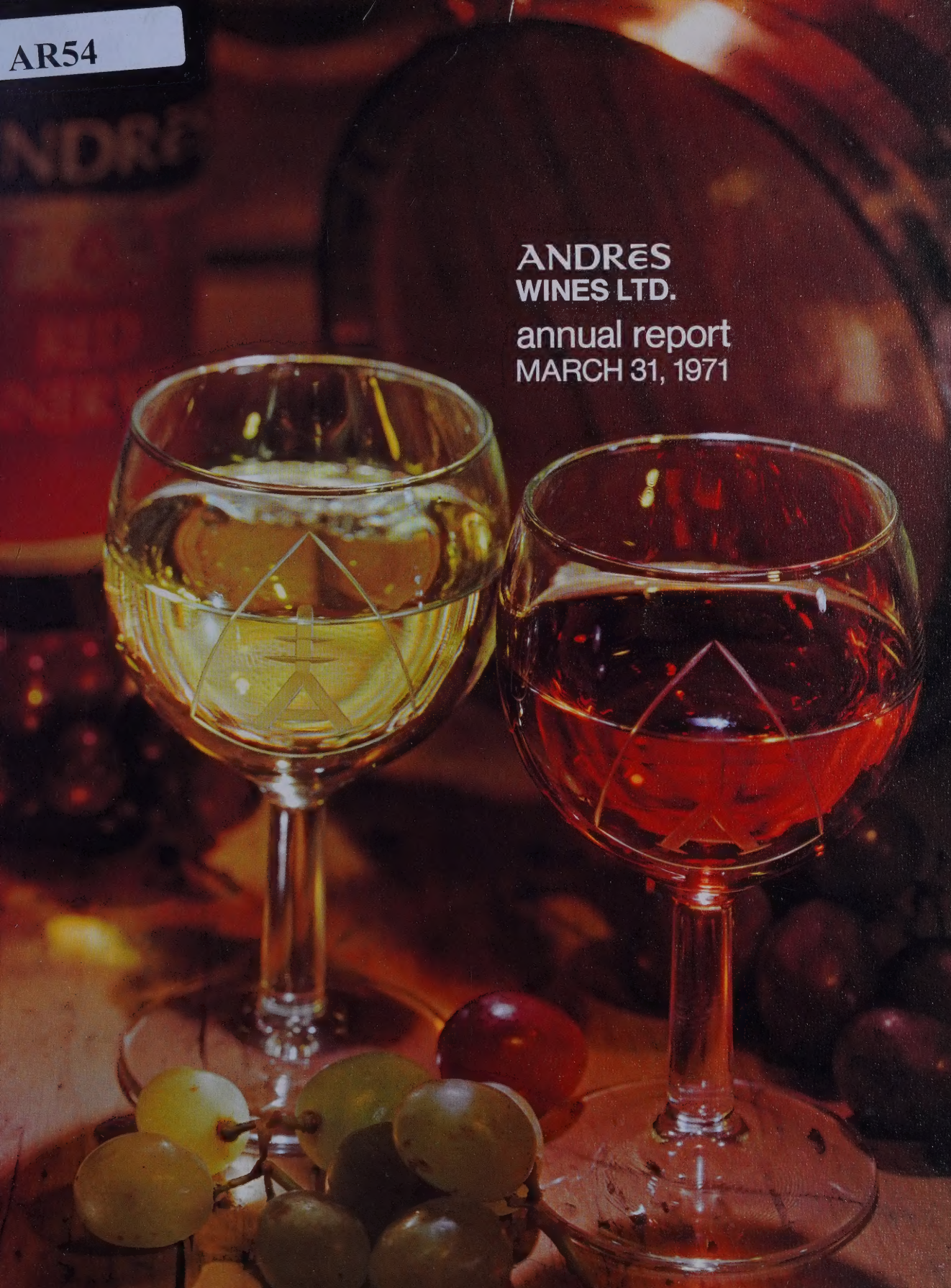


AR54

ANDRÉS
WINES LTD.

annual report
MARCH 31, 1971





DIRECTORS

E. S. Arnold, Grimsby, Ontario
J. A. Boychuck, Burlington, Ontario
G. R. Dawson, Vancouver, B.C.
B. R. James, Hamilton, Ontario
R. H. Jenkins, Calgary, Alberta
C. O. Nickle, Calgary, Alberta
C. Norwood, Halifax, Nova Scotia
A. Peller, Ancaster, Ontario
J. A. Peller, M.D., F.R.C.P.(C), Ancaster, Ontario
G. W. Snelgrove, Burlington, Ontario
W. J. Walsh, M.D., F.R.C.P.(C), Hamilton, Ontario

REGISTRAR AND TRANSFER AGENT

The Canada Trust Company — Vancouver, B.C.

AUDITORS

McDonald, Currie & Co.

OFFICERS

A. Peller, *Chairman of the Board*
J. A. Peller, *President*
E. S. Arnold, *Vice-President Operations*
J. A. Boychuck, *Vice-President Marketing*
N. D. Smith, *Vice-President Finance and Secretary*

BANKER

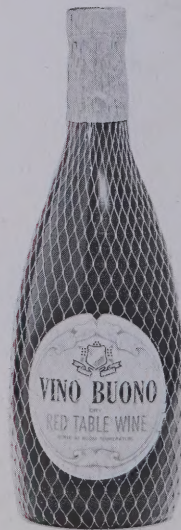
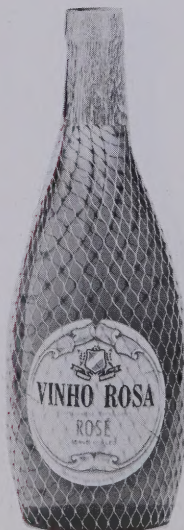
The Royal Bank of Canada

PLANT LOCATIONS

(including subsidiaries)

Port Moody, British Columbia
Calgary, Alberta
Winona, Ontario
Truro, Nova Scotia





DIRECTORS' REPORT TO SHAREHOLDERS

The Board of Directors submits herewith the Annual Report of your Company and its Subsidiaries, together with the Consolidated Financial Statements for the year ended March 31, 1971 and the Report of your Auditors.

At the last Annual Meeting the Shareholders authorized the name change of the Company from Andrés Wines (Canada) Ltd. to Andrés Wines Ltd.

Sales — Increase

Sales growth in 1971 was the greatest in the Company's history. Consolidated sales were \$4,832,362 up \$2,240,040 or 86.4% from \$2,592,322 in 1970. This significant increase in sales is largely due to increased consumer acceptance of the fine quality wines that the Company produces. To a smaller extent the increase is due to the inclusion of a full year of sales from the Ontario winery compared with three months for 1970.

Profits — Increase

Net profit for the year was \$413,361 or \$.57 a share compared with \$250,195 or \$.34 a share in 1970. Cost of manufacturing increased during the year and this was partially offset by the purchase of more automated equipment.

Financial

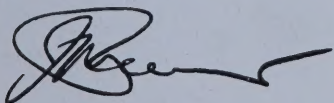
Capital expenditures totalled \$811,871 in 1971 compared with \$843,421 in 1970. The major portion of this expenditure was for the expansion of the British Columbia winery.

Working capital at March 31, 1971 amounted to \$1,442,998 as compared with \$1,543,898 at March 31, 1970. Although there were no dividends declared during the year, working capital generated from net earnings were absorbed by capital expenditures and payments on long-term debt. Long-term debt amounted to \$1,978,218 compared with \$1,961,025 in 1970. This was after receiving the balance of \$100,000 on the 11-1/4% bonds and making payments on the long-term debt of \$100,450.

Outlook

The future for the Company appears to be favourable, and it is expected that both sales and earnings will increase during the coming year. Although one Province is restricting the advertising of wine, this is offset by the lowering of the drinking age in other Provinces. The growth in sales has made it necessary to expand all four wineries to the extent of \$1,500,000. This means that our capital expenditure for the past two years and this coming year will be in excess of \$3,150,000.

On behalf of the Board

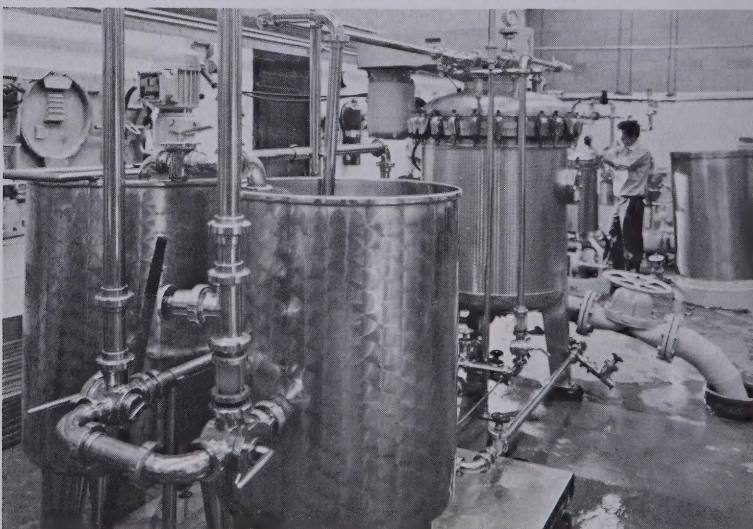
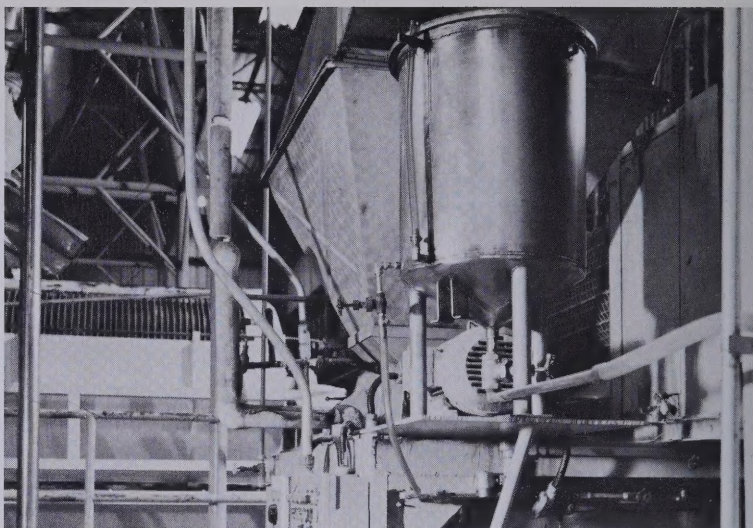


Joseph A. Peller, M.D., F.R.C.P.(C)
President



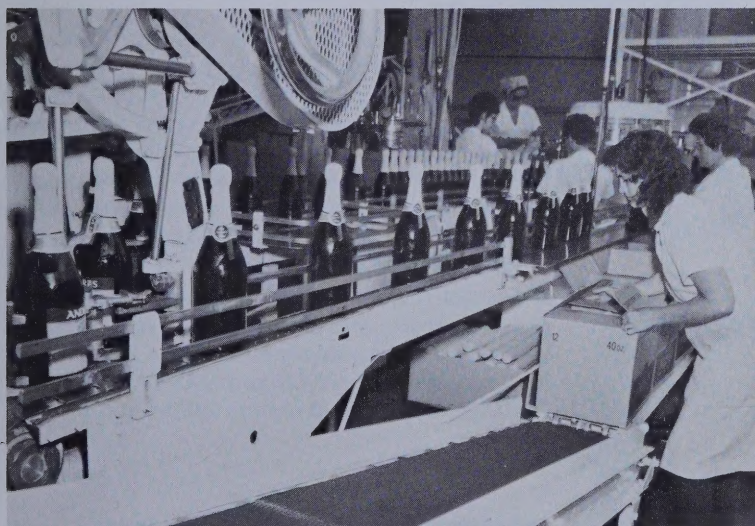
"Care and Concern" through every stage of operation best describes Andrés production methods. Here in a photo tour is a brief look at some of Andrés production facilities.

1. Juice is extracted from selected grapes in high capacity presses.
2. These stainless steel tanks store the juice through the required stages of fermentation.
3. Blending is the secret of giving each wine it's distinctive qualities. Here in a blending room the wine is filtered to ensure the utmost in clarity and then blended to precise recipes. The result is a uniquely Andrés product — true to itself.





4. Testing and retesting guarantees the Andrés product quality. Here, in one of our labs., our President, Dr. J. A. Peller views a wine sample.



5. Bottling, labelling and packaging is done on automated equipment yet the personal concern for quality remains constant. From design to application Andrés labels and packaging must always reflect the high standard of the product.

6. Ready for the market . . . each case identified and moved to a warehousing/shipping area.

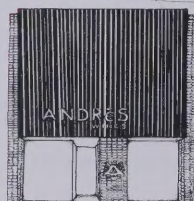




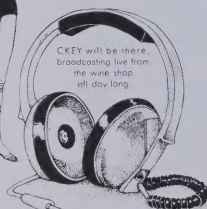
ANDRÉS MAKES MERRY AT STORE OPENING

pop in to our party

You're invited to
the opening of
Andrés Wines'
newest shop
at 695 Yonge St.



(one block south of bloor.)



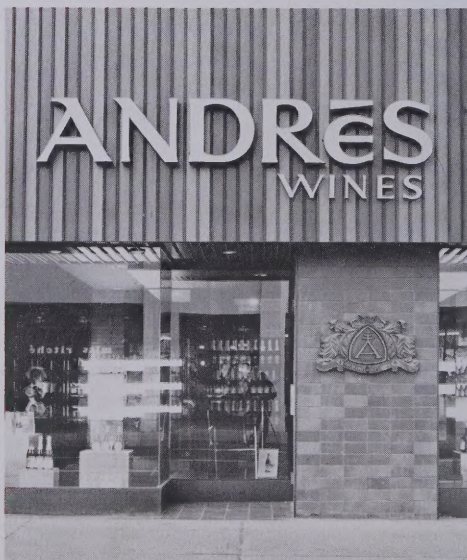
ANDRÉS
VINTNERS OF FINE WINES

Saturday, July 17th, 1971 was opening day for the newest Andrés Wines self-service store at 695 Yonge Street, Toronto. The event was also something of a milestone for the industry in that Andrés was the first company in Ontario to actively promote a wine store opening.

To help promote the opening, Andrés executives and staff held a series of receptions for the public, the press and business and government dignitaries.

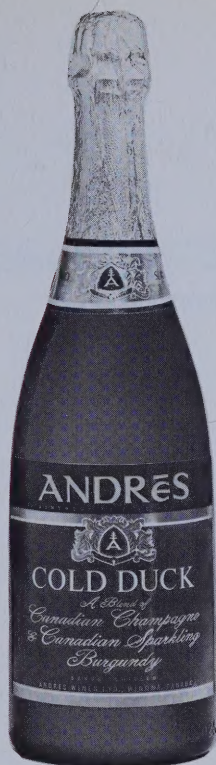
The invitations to the public took the form of a 1250 line advertisement which appeared in the major Toronto daily newspapers. Radio station CKEY broadcast live from the store throughout the day, with interviews with Dr. Peller and other senior personnel. Meanwhile 17 pretty girls in hot pants outfits passed out cheese and grapes to passers by, many of whom responded by visiting the store, and buying wine.

A special Press Preview was held prior to the public opening, and wide exposure was gained in all media. Dignitaries from business, government and the Liquor Control Board of Ontario attended the V.I.P. Reception the week following the public opening.



ANDRÉS

1971
... a very
good year.



1971 was a vintage year for Andrés Wines — especially from a marketing standpoint.

In addition to the incorporation of a number of leading Beau Chatel products under the Andrés label, an ambitious programme of new product introduction was successfully executed.

"Cold Duck" in the new 26 oz. bottle was immediately a national winner, while the 40 oz. bottle (exclusive to B.C.) gained rapid popularity. Andrés, "Cold Duck" is a blend of Champagne and Sparkling Burgundy.

Cold Duck was the initial member of the Andrés family to have a unique name give to its wine. The name is a tradition and the Andrés Cold Duck is following in that tradition well.

In Ontario, Baby Duck made a spectacular debut at the retail store opening, and negotiations for its listing with the Liquor Control Board of Ontario are nearing completion. Baby Duck is the newest addition to the Andrés family of fine Canadian wines. Cool red in color, Baby Duck has a hearty bouquet and a lusty flavour.

In the Maritimes, Caprice — a light cocktail wine was introduced and is achieving satisfactory sales results. This wine is a blend of Rosé made from California grapes and Sparkling Vin De Pomme made from Nova Scotia apples.





ANDRÉS WINES LTD. AND SUBSIDIARY COMPANIES
(FORMERLY ANDRES WINES (CANADA) LTD.)

ASSETS

	1971	1970
	\$	\$
CURRENT ASSETS		
Cash	—	41,124
Accounts receivable (Note 2)	680,949	541,490
Notes receivable	—	250,000
Inventories at the lower of cost or net realizable value (Notes 2 and 3)	2,189,711	1,277,902
Prepaid expenses	<u>71,848</u>	<u>15,249</u>
	2,942,508	2,125,765
FIXED ASSETS (Note 4)	2,370,975	1,747,085
AGREEMENT RECEIVABLE	31,523	30,000
DEFERRED CHARGES (Note 5)	144,425	174,809
	<u><u>5,489,431</u></u>	<u><u>4,077,659</u></u>

**AUDITORS' REPORT TO THE
 SHAREHOLDERS**

Approved on behalf of the board:
 G. W. Snelgrove, Director
 J. A. Peller, Director

CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 1971

LIABILITIES

	1971 \$	1970 \$
CURRENT LIABILITIES		
Bank advances (Note 2)	557,078	113,649
Accounts payable and accrued liabilities	418,649	135,118
Income and other taxes payable	402,083	231,850
Current portion of long-term debt	<u>121,700</u>	<u>101,250</u>
	1,499,510	581,867
LONG-TERM DEBT (Note 6)	1,978,218	1,961,025
DEFERRED INCOME TAXES (Note 7)	26,316	19,828
MINORITY INTEREST IN NET ASSETS OF SUBSIDIARY COMPANIES (Note 8)	<u>346,618</u>	<u>266,536</u>
	<u>3,850,662</u>	<u>2,829,256</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 9)	783,802	783,802
RETAINED EARNINGS	<u>854,967</u>	<u>464,601</u>
	<u>1,638,769</u>	<u>1,248,403</u>
	<u>5,489,431</u>	<u>4,077,659</u>

We have examined the consolidated balance sheet of Andrés Wines Ltd. (formerly Andrés Wines (Canada) Ltd.) and the statements of earnings and retained earnings and source and use of working capital for the year then ended. Our examination of the financial statements of Andrés Wines Ltd. and subsidiary companies of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of Abbey Wines Limited.

In our opinion, these financial statements present fairly the financial position of the company as at March 31, 1971 and the results of its operations and the source and use of its working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except as described in Note 12 to the financial statements with which we concur.

McDONALD, CURRIE & CO.
Chartered Accountants.



CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE YEAR ENDED MARCH 31, 1971

	1971 \$	1970 \$
SALES.....	4,832,362	2,592,322
COSTS AND EXPENSES		
Manufacturing, selling and administration.....	3,458,576	1,800,027
Depreciation.....	185,349	99,295
Interest on long-term debt.....	127,387	67,386
Amortization of deferred charges.....	30,384	30,384
Directors' remuneration.....	118,100	62,391
Loss on disposal of fixed assets.....	—	37,333
	3,919,796	2,096,816
OPERATING EARNINGS.....	912,566	495,506
Provision for income taxes (Note 7).....	460,571	199,547
NET EARNINGS BEFORE PROVISION FOR MINORITY INTEREST.....	451,995	295,959
Portion of net earnings of subsidiary companies attributable to minority interest.....	38,634	45,764
NET EARNINGS FOR THE YEAR (Note 1).....	413,361	250,195
RETAINED EARNINGS — BEGINNING OF YEAR.....	464,601	225,818
Adjustment relating to prior year — deferred income taxes (Note 12).....	6,505	—
Increase of consolidated interest in the retained earnings of subsidiary companies due to shares exchanged during the year.....	—	212
	884,467	476,225
Dividends on preferred shares.....	—	11,624
Adjustment relating to prior year's income taxes.....	29,500	—
	29,500	11,624
RETAINED EARNINGS — END OF YEAR.....	854,967	464,601

CONSOLIDATED STATEMENT OF SOURCE AND USE OF WORKING CAPITAL

FOR THE YEAR ENDED MARCH 31, 1971

	1971 \$	1970 \$
SOURCE OF WORKING CAPITAL		
Current operations		
Net earnings for the year	413,361	250,195
Items included in net earnings which do not affect working capital —		
Depreciation	185,349	99,295
Amortization of deferred charges	30,384	30,384
Loss on disposal of fixed assets	2,632	37,333
Deferred income tax (recovery)	54,441	(10,827)
Minority interest	<u>38,634</u>	<u>45,764</u>
	724,801	452,144
11-1/4% Bonds — Proceeds	100,000	750,000
Agreement to purchase — Proceeds	<u>38,893</u>	<u>900,000</u>
	<u>863,694</u>	<u>2,102,144</u>
USE OF WORKING CAPITAL		
Dividends paid on preferred shares	—	11,624
Fixed asset additions — Net	811,871	843,421
Agreement receivable	1,523	30,000
Payment of long-term debt	100,450	39,100
Increase in current portion of long-term debt	21,250	62,150
Adjustment of prior year's income taxes	<u>29,500</u>	<u>—</u>
	<u>964,594</u>	<u>986,295</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(100,900)	1,115,849
WORKING CAPITAL — BEGINNING OF YEAR	<u>1,543,898</u>	<u>428,049</u>
WORKING CAPITAL — END OF YEAR	<u>1,442,998</u>	<u>1,543,898</u>
REPRESENTED BY:		
Current assets	2,942,508	2,125,765
Current liabilities	<u>1,499,510</u>	<u>581,867</u>
	<u>1,442,998</u>	<u>1,543,898</u>



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1971

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all subsidiary companies, namely:
Andrés Wines (B.C.) Ltd.
Andrés Wines (Alberta) Ltd.
Abbey Wines Limited

2. SECURITY FOR BANK ADVANCES

Book debts and inventories have been pledged as security for bank advances. Also, Andrés Wines (B.C.) Ltd. has secured its bank advances by a debenture providing a third specific and floating charge against its assets.

3. INVENTORIES

The companies' inventories are as follows:

	1971 \$	1970 \$
Finished and in process.....	1,796,753	1,129,764
Wine making ingredients.....	195,231	42,487
Packing materials.....	197,727	105,651
	<u>2,189,711</u>	<u>1,277,902</u>

4. FIXED ASSETS

Fixed assets and related accumulated depreciation are as follows:

	Cost \$	1971 Accumulated depreciation \$	Net \$	1970 Net \$
Land.....	122,249	—	122,249	124,251
Buildings.....	902,815	79,200	823,615	593,754
Machinery and equipment.....	<u>1,956,340</u>	<u>531,229</u>	<u>1,425,111</u>	<u>1,029,080</u>
	<u>2,981,404</u>	<u>610,429</u>	<u>2,370,975</u>	<u>1,747,085</u>

5. DEFERRED CHARGES

Deferred charges are being amortized at the rate of 10% of cost a year.

6. LONG-TERM DEBT

(a) This consists of:

	1971 \$	1970 \$
9% first mortgage bonds Series A repayable in quarterly instalments of \$6,300 plus interest	239,400	264,600
10% debenture due May 15, 1980 with interest payable semi-annually	75,000	75,000
11-1/4% mortgage bonds repayable in quarterly instalments of \$21,250 plus interest	786,250	750,000
Winbaco Ltd. agreement to purchase repayable in semi-annual instalments of \$90,000 plus interest at prime bank rate plus one-half of 1% commencing on June 30, 1973	938,893	900,000
9-1/4% serial debenture repayable in quarterly instalments of \$2,875 plus interest	60,375	71,875
Miscellaneous deferred trade accounts unsecured	—	800
	<u>2,099,918</u>	<u>2,062,275</u>
Less: Portion payable within one year	<u>121,700</u>	<u>101,250</u>
	<u>1,978,218</u>	<u>1,961,025</u>

(b) The 9% first mortgage bonds are secured by a Trust Deed dated November 30, 1967, and the 11-1/4% mortgage bonds are secured by a Trust Deed dated January 15, 1970, between Andrés Wines Ltd. and the Canada Trust Company constituting fixed and floating charges on all properties and assets of the company and its subsidiaries subject to the charge in favour of Winbaco Ltd. as noted below. The Trust Deed also restricts the incurrence of further funded debt and requires the maintenance of a consolidated working capital ratio of 1.75 to 1.

Under terms of the Trust Deed noted above, the company has transferred its holdings in the shares of its subsidiaries to the Canada Trust Company. Andrés Wines Ltd. has retained beneficial ownership of these shares.

The 9-1/4% serial debenture is secured by a first mortgage on the fixed assets and a floating charge on all other assets of Abbey Wines Limited.



(c) The agreement to purchase is secured by a first mortgage in favour of Winbaco Ltd. on the land and premises acquired from that company.

7. INCOME TAXES

The provision for income taxes consists of:

	1971 \$	1970 \$
Current.....	406,130	210,374
Deferred (recovery).....	54,441	(10,827)
	<u>460,571</u>	<u>199,547</u>

8. MINORITY INTEREST

Minority interest is made up of the following:

	1971 \$	1970 \$
Andrés Wines (Alberta) Ltd.....	41,593	35,611
Abbey Wines Limited.....	305,025	230,925
	<u>346,618</u>	<u>266,536</u>

9. CAPITAL STOCK

(a) Authorized:

Preferred shares with a par value of \$10 each, issuable in series, of which 125,000 shares are designated as 6% cumulative, preferred shares Series A, redeemable at par plus a premium of 6%, 250,000 shares

Common shares without par value, 3,000,000 shares

Issued and fully paid —

	1971 \$	1970 \$
33,315 preferred shares Series A.....	333,150	333,150
687,781 common shares.....	450,652	450,652
	<u>783,802</u>	<u>783,802</u>

- (b) Dividends on issued 6% cumulative, preferred shares Series A accrue from March 31, 1968 and as at March 31, 1971 were in arrears to the extent of \$59,905 (1970 — \$39,916).
- (c) An option has been granted to two of the companies' management personnel to purchase, between the two of them, 10,000 common shares of the capital stock of the company at \$2.45 each. The option must be exercised on or before August 25, 1974.
- (d) As a condition of the Offer to Finance entered into by the company with RoyNat Ltd., an option to purchase 55,000 common shares in the capital stock of the company at a price of \$2.45 per share has been granted to RoyNat Ltd. The option must be exercised by September 15, 1980. RoyNat Ltd. will also have the opportunity to maintain its percentage participation out of any further common share issuances.

10. SUBSIDIARIES' PREFERRED DIVIDENDS IN ARREARS

- (a) The dividends on the 6% cumulative, redeemable preferred shares of Andrés Wines (B.C.) Ltd. are in arrears to the extent of \$129,517. As minority interests do not hold any preferred shares, none of this is applicable to their interests.
- (b) The dividends on the 6% preferred shares of Andrés Wines (Alberta) Ltd. are cumulative from October 1, 1965. As at March 31, 1971 the preferred share dividends are in arrears to the extent of \$112,000. \$12,320 of this amount is applicable to shares held by minority interests.

11. EARNINGS PER SHARE

Earnings per common share for the year ended March 31, 1971 after providing for cumulative 6% preferred dividends are:

	1971	1970
	\$	\$
Earnings per share.....	<u>.572</u>	<u>.335</u>
Fully diluted earnings per share.....	<u>.523</u>	<u>.299</u>

Fully diluted earnings per share recognize the potential issuance of additional common shares pursuant to the exercise of the common share options described in Note 9(c) and (d).



12. CHANGES IN ACCOUNTING POLICIES

Income Taxes:

In 1971, Andrés Wines Ltd., Andrés Wines (Alberta) Ltd. and Abbey Wines Limited adopted the policy of providing for deferred income taxes on all timing differences between taxable income and that reported on the financial statements (full tax allocation basis). As a result of this change, it was necessary to adjust prior years' retained earnings, crediting it with \$6,505.

13. DIRECTORS' REMUNERATION

Remuneration paid to directors and officers amounted to \$118,100.

FIVE YEAR STATISTICAL REVIEW

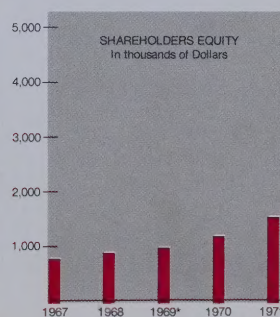
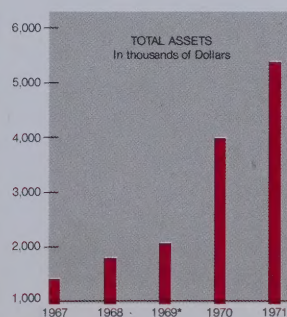
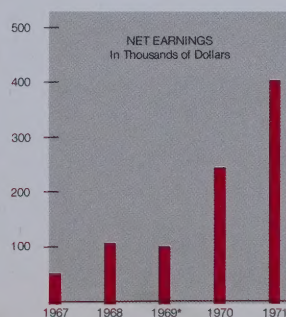
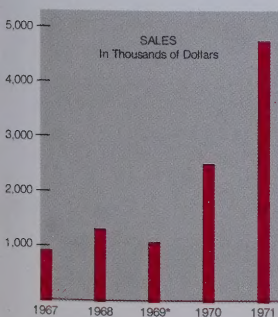
	1971	1970	(Seven Months) 1969	1968	1967
CONSOLIDATED					
INCOME STATEMENT ITEMS					
(in thousands of dollars)					
Sales	4,832	2,592	1,129	1,358	983
Net Earnings before					
Minority Interest	452	296	105	89	55
Net Earnings for the Year	413	250	105	113	54

CONSOLIDATED					
BALANCE SHEET ITEMS					
(in thousands of dollars)					
Working Capital (deficiency)	1,443	1,544	428	402	(11)
Fixed Assets (net)	2,371	1,747	1,009	956	682
Long Term Debt	1,978	1,961	412	441	87
Minority Interests	347	267	222	236	54
Shareholders' Equity	1,639	1,248	1,009	941	815
Total Assets	5,489	4,078	2,113	1,893	1,422

NUMBER OF SHARES OUTSTANDING

Preferred Shares — Series A	33,315	33,315	33,211	33,155	32,433
Common	687,681	687,681	686,401	677,277	669,942

Note: The year end was changed from August 31st to March 31st in 1969.



*Represents seven months. The fiscal year end was changed from August 31st to March 31st in 1969.

